

REPORT OF THE AUDITOR-GENERAL TO THE WESTERN CAPE PROVINCIAL PARLIAMENT AND THE COUNCIL ON CITY OF CAPE TOWN

REPORT ON THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Introduction

1. I have audited the consolidated and separate financial statements of the City of Cape Town set out on pages 11 to 74, which comprise the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets, the cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the consolidated and separate financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP), the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2012 (Act No. 5 of 2012) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these consolidated and separate financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated and separate financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and separate financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated and separate financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated and separate financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the City of Cape Town as at 30 June 2013 and its financial performance, cash flows and comparison between actual and budgeted amounts for the year then ended, in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Significant uncertainty

8. With reference to note 49.2 to the consolidated and separate financial statements, the city was also impacted by the ongoing negotiations between the South African Local Government Association (SALGA) and the trade unions in respect of the wage award. The maximum potential liability could not be estimated as the outcome could not be determined at year-end.

Material impairments

9. As disclosed in note 9 to the consolidated and separate financial statements, receivables were significantly impaired. The impairment of receivables amounts to R4,045 billion (49%) of which R2,548 billion (31%) related to service debts.

Other provisions

10. As disclosed in note 15 to the consolidated and separate financial statements, the city provided for an amount of R631,11 million based on the agreement reached with taxi associations relating to the implementation of the expanded integrated rapid transit (IRT) routes.

Additional matter

11. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited supplementary schedules

12. The supplementary information set out on pages 75 to 83 does not form part of the consolidated and separate financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

13. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

14. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages xx to xx of the annual report.
15. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability for the objectives selected for auditing. The usefulness of information in the annual performance report relates to whether it is

presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant, as required by the National Treasury's *Framework for managing programme performance information*.

16. The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
17. There were no material findings on the annual performance report concerning the usefulness and reliability of the information.

Compliance with laws and regulations

18. I performed procedures to obtain evidence that the entity had complied with applicable laws and regulations regarding financial matters, financial management and other related matters. I did not identify any instances of material non-compliance with specific matters in key applicable laws and regulations as set out in the general notice issued in terms of the PAA.

Internal control

19. I considered internal control relevant to my audit of the consolidated and separate financial statements, performance report and compliance with laws and regulations. I have not identified any deficiencies in internal control which I considered sufficiently significant for inclusion in this report.

OTHER REPORTS

Investigations

Investigations completed

20. The investigation into the NASPERS land purchase agreement by the public protector was completed and the recommendations were implemented by the council and management. The investigation did not identify any fraud or corruption but found that the council had not been adequately informed regarding the height restrictions on the land.

Investigations in progress

21. The report referred to in paragraph 20 also recommended that the city's forensic investigation unit (FIU) look into the supply chain management (SCM) processes of the Cape Town International Convention Centre (CTICC) with regard to the architectural tender. This investigation was completed and the draft report was submitted to the CTICC board for its consideration. The board considered the findings and recommendations of this investigation and provided a formal response to the city manager dealing with the findings and recommendations.

22. At the time of writing this report, the city's FIU was investigating a R9,7 million tender that was awarded to tackle gang-related violence, and the investigation was still in progress.

Auditor-General
Cape Town

18 December 2013



AUDITOR-GENERAL
SOUTH AFRICA

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